

Audit Report



PREPARING FINANCIAL REPORTS FOR MARINE CORPS APPROPRIATIONS

Report No. D-2001-097

April 12, 2001

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Department of Defense

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Abstract <p>This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the third report on our audit of the FY 2000 Department of the Navy General Fund financial statements. The first report discusses the journal entries made to support the departmental reporting for the Marine Corps. The second report was our endorsement of the Naval Audit Service disclaimer of opinion on the FY 2000 General Fund financial statements. The Defense Finance and Accounting Service (DFAS) Cleveland and DFAS Kansas City provides finance and accounting support to the Navy and Marine Corps, including preparation of monthly financial reports and year-end financial statements. DFAS Kansas City maintains accounting records for 15 Marine Corps appropriations and reports Marine Corps financial data to DFAS Cleveland for official Department of the Navy financial reporting. The FY 2000 Department of the Navy General Fund financial statements reported a net cost of operations of \$11.5 billion and total outlays of \$10.8 billion by the Marine Corps.</p>		
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Acronyms

CERPS	Centralized Expenditures and Reimbursements Processing System
DFAS	Defense Finance and Accounting Service
FMS	Financial Management Service
SABRS	Standard Accounting, Budgeting and Reporting System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

April 12, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Preparing Financial Reports for Marine Corps Appropriations (Report No. D-2001-097)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. We conducted the audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

The Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Ms. Linda A. Pierce at (216) 522-6091 (DSN 580-6091), extension 234 (lpierce@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2001-097

(Project No. D2000FC-0283.002)

April 12, 2001

Preparing Financial Reports for Marine Corps Appropriations

Executive Summary

Introduction. This audit was performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the third report on our audit of the FY 2000 Department of the Navy General Fund financial statements. The first report discusses the journal entries made to support the departmental reporting for the Marine Corps. The second report was our endorsement of the Naval Audit Service disclaimer of opinion on the FY 2000 General Fund financial statements. The Defense Finance and Accounting Service (DFAS) Cleveland and DFAS Kansas City provides finance and accounting support to the Navy and Marine Corps, including preparation of monthly financial reports and year-end financial statements. DFAS Kansas City maintains accounting records for 15 Marine Corps appropriations and reports Marine Corps financial data to DFAS Cleveland for official Department of the Navy financial reporting. The FY 2000 Department of the Navy General Fund financial statements reported a net cost of operations of \$11.5 billion and total outlays of \$10.8 billion by the Marine Corps.

Objective. The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we audited the processes and procedures that DFAS Kansas City used to prepare monthly and year-end financial reports for Marine Corps appropriations. Our review of the management control program for departmental and financial statement reporting for DFAS Cleveland and DFAS Kansas City will be reported in a future audit report.

Results. DFAS Kansas City has spent more than \$21 million on the Standard Accounting, Budgeting and Reporting System (SABRS) modifications, redesign, and enhancements from FY 1997 through FY 2000 to provide full accounting support for the Marine Corps general funds. However, DFAS Kansas City did not use SABRS general ledger account balances to prepare monthly and year-end financial reports or utilize other enhancements built into SABRS. DFAS Kansas City used a complex, manual process that increased the potential for errors and did not further the objective of moving toward transaction-based, general ledger driven accounting systems to produce financial reports and statements. Also, not relying on general ledger account balances resulted in missed opportunities to capitalize on the inherent efficiencies of

using a single system. For details of the audit results, see the Finding section of the report. Appendix A discusses the audit scope and methodology and prior audits related to the audit objective.

Summary of Recommendations. We recommend that the Director, DFAS Kansas City, use SABRS to prepare monthly and year-end reports for Marine Corps appropriations, and evaluate the effectiveness of SABRS to process financial data accurately through the U.S. Government Standard General Ledger. Specifically, DFAS Kansas City should complete the work necessary for SABRS to automatically produce financial reports, use SABRS general ledger account data to prepare the required financial reports, and reconcile any differences between the SABRS general ledger account data and other sources of financial information. DFAS Kansas City should also post and maintain adjustments to financial records in SABRS using journal entries. The DFAS Kansas City SABRS Program Office should report any SABRS enhancement deficiencies that affect financial report preparation to senior DFAS and Marine Corps officials.

Management Comments. DFAS concurred with the recommendations to utilize SABRS in the preparation of financial reports. In addition, DFAS stated that the transition from manual to general ledger account driven reports would be performed once each appropriation is balanced within SABRS. To aid in the balancing and reconciliation process, DFAS indicated that a team of accountants was working to reconcile SABRS data and related files. In addition, a module has been implemented in SABRS that will allow for recording of adjusting entries in the correct reporting period. DFAS indicated that any SABRS deficiencies noted through a standard problem reporting process will be reported to DFAS Kansas City, DFAS Arlington, and the Marine Corps. See the Finding section for the complete discussion of management comments and the Management Comments section for the complete text of the management comments.

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Background

Chief Financial Officers Act. This audit was performed in response to Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. This is the second report on our audit of the FY 2000 Department of the Navy General Fund financial statements. The first report discusses the journal entries made to support the departmental reporting for the Marine Corps.

Role of the Defense Finance and Accounting Service. Defense Finance and Accounting Service (DFAS) Cleveland and DFAS Kansas City provide finance and accounting support to the Navy and Marine Corps, respectively. DFAS maintains departmental accounting records and prepares monthly financial reports and year-end financial statements using data from field organizations. DFAS Kansas City maintains accounting records for 15 Marine Corps appropriations and reports Marine Corps financial data to DFAS Cleveland for official Department of the Navy financial reporting. The FY 2000 Department of the Navy General Fund financial statements reported Marine Corps assets of \$8.2 billion and liabilities of \$1.8 billion. The Marine Corps also reported a net cost of operations of \$11.5 billion and total outlays of \$10.8 billion.

Standard Accounting, Budgeting and Reporting System. The Standard Accounting, Budgeting and Reporting System (SABRS) has been in use by the Marine Corps since 1986 and undergone several upgrades and redesigns. When enhancements are fully implemented, DFAS believes that SABRS should:

- meet the Standard Fiscal Code requirements,
- eliminate five general fund accounting systems,
- support the Chief Financial Officers Act reporting requirements by providing accurate and auditable data using the U.S. Government Standard General Ledger,
- provide full accounting support for all general funds at the command level, and
- support the departmental-level accounting and reporting process.

Functions of a General Ledger Accounting System. The general ledger, as the central function of a core financial system, is the highest level of summarization within the system. As the ultimate overall control for capturing the effects of financial events, the general ledger ensures that debits equal credits for every recorded transaction in a single journal entry. The general ledger maintains accounts for assets, liabilities, equity, revenues, expenses, gains, losses, budgetary data, and memorandum information.

The general ledger defines the chart of accounts and transaction posting rules, and is used to update multiple accounts, including budgetary and proprietary accounts for a single transaction or financial event. The general ledger provides

for entering journal entries to post transactions, record account adjustments, and perform periodic closings. The general ledger should be used to produce external financial reports.

The Department of the Navy and DFAS need transaction-driven, general ledger accounting systems capable of accurately reporting the value of assets and liabilities. The auditors have issued disclaimers of opinion on the FY 1996 through FY 2000 Department of the Navy General Fund financial statements, in large part because of the lack of transaction-driven, general ledger accounting systems. SABRS was designed to be such a system for the Marine Corps accounting processes.

Monthly and Year-end Financial Reports. DFAS Kansas City prepared the “Report on Budget Execution” [SF 133], the “Appropriation Status by Fiscal Year Program and Subaccounts” [DD 1002], and the “Report on Reimbursements” [DD 725] each month for each of the 15 Marine Corps appropriation accounts. The “Year End Closing Statement” [Financial Management Service (FMS) 2108] was prepared at year end. Those reports were used as source documents for preparation of year-end financial statements for Marine Corps accounts.

SF 133. The SF 133 provides financial data on budget authorization and obligations. DFAS Kansas City provided the SF 133 to DFAS Cleveland and to Headquarters Marine Corps in a spreadsheet format.

DD 1002. The DD 1002 provides information on appropriations, obligations, and disbursements. DFAS Kansas City provided the DD 1002 to DFAS Cleveland in both a spreadsheet and database format and to Headquarters Marine Corps in a spreadsheet format only.

DD 725. The DD 725 provides information on reimbursement receivables from various sources. DFAS Kansas City provided the DD 725 to DFAS Cleveland and Headquarters Marine Corps in a spreadsheet format.

FMS 2108. The FMS 2108 provides financial data on the status of resources by fiscal year for the Marine Corps appropriations. DFAS Kansas City provided the FMS 2108 to DFAS Cleveland and Headquarters Marine Corps in a spreadsheet format.

Objective

The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we audited the processes and procedures DFAS Kansas City used to prepare monthly and year-end financial reports for Marine Corps appropriations. Our review of the management control program related to the overall audit objective will be reported in a future audit report. Appendix A discusses the audit scope and methodology related to the audit objective.

Preparing Financial Reports for Marine Corps Appropriations

The DFAS Kansas City did not use SABRS general ledger account balances or other enhancements to prepare financial reports, even though DFAS has spent approximately \$21.8 million on SABRS modifications, redesign, and enhancements since 1997 to provide full accounting support for the Marine Corps general funds. DFAS Kansas City did not use SABRS because procedures for fully utilizing SABRS had not been established and because SABRS could not automatically produce all required reports. As a result, DFAS Kansas City used a complex, manual process that increased the potential for errors and did not further the objective of moving toward transaction-based, general ledger driven accounting systems to produce financial reports and statements. Not using the capabilities of SABRS also resulted in missed opportunities to capitalize on the efficiencies provided by SABRS.

Standard Accounting, Budgeting and Reporting System

SABRS was selected and funded in 1995 as the migratory accounting system for the Marine Corps General Fund. Marine Corps organizations in the field used SABRS to input transaction data, and for FY 2000, SABRS was capable of providing DFAS Kansas City with general ledger account data. One SABRS enhancement was the journal entry module. However, the DFAS Kansas City used limited general ledger account data and the journal entry module did not adequately support monthly account entries made during FY 2000. Although SABRS was intended to standardize the financial reporting process, SABRS could produce only one of the four required reports in FY 2000.

Selection and Funding. SABRS was selected as the migratory accounting system for the Marine Corps General Fund in 1995, even though the system required major redesign and modification efforts. Since selection, approximately \$21.8 million was expended through FY 2000 for various enhancements and upgrades. The DoD Financial Management Improvement Plan estimates an additional \$5.5 million for enhancements is needed to correct problems through FY 2004. SABRS was selected as the migratory system in part because it was already in place at Marine Corps sites. Marine Corps organizations in the field were using SABRS to input transaction data; however, DFAS Kansas City used limited data in SABRS general ledger accounts to prepare financial reports, such as general ledger account balances for Accounts Receivable and Accounts Payable. In addition, DFAS Kansas City utilized other SABRS products because SABRS general ledger account balances were not balanced and reconciled.

Standard General Ledger Accounts in SABRS. During FY 2000, SABRS was capable of providing general ledger account data necessary for monthly and year-end financial report processing. However, DFAS Kansas City reported that the SABRS general ledgers were not balanced and reconciled. Therefore, DFAS Kansas City relied on a manual process to produce financial reports.

Additional enhancements to SABRS beginning in FY 2001 were expected to automate and improve the monthly financial report processing even more. The SABRS enhancements, when fully implemented, should be U.S. Government Standard General Ledger compliant and improve the ability of SABRS to trace account balances to source transactions. DFAS Kansas City reported that the general ledger account balances did not accurately reflect the financial data entered by Marine Corps organizations because of problems with the SABRS general ledger accounts. Therefore, DFAS Kansas City retrieved data from other SABRS files because they believed the data more accurately represented the actual transactions entered. If SABRS general ledger account data was used to prepare financial reports, DFAS Kansas City could have identified variances between general ledger balances and other sources of data. However, because no specific requirement to expand the use of SABRS had been established, accounting personnel continued using manual procedures they were accustomed to using. DFAS Kansas City should discontinue using the manual processes and rely on the SABRS general ledger account balances for preparing financial reports and statements. Only by using the SABRS general ledger accounts can SABRS be tested and problems identified and corrected.

SABRS Journal Entry Module. DFAS Kansas City did not enter journal entry adjustments into SABRS, thus causing the data in the SABRS accounting system to be different than what was reported on monthly financial reports. Personnel from the SABRS Program Office at DFAS Kansas City stated that the adjustments could have been entered into SABRS during FY 2000 using the journal entry module. However, the version of the journal entry module available in SABRS during FY 2000 could not accommodate monthly accounting adjustments because all entries posted would be considered permanent, when in actuality the entries were temporary and impacted only the current month accounting activity. Entering journal entries into SABRS should have allowed adjustment data to be maintained in the general ledger while making the necessary adjustment for the monthly financial reports. The journal entry option in the SABRS program allowed for an explanation of why the journal entry was required, what accounts would be affected, the amount of the adjustment, the appropriation affected, and other related information. When the SABRS enhancements are completed in FY 2001, use of the journal entry module for temporary journal entries would provide an audit trail of transactions that supports an account balance.

Capability of SABRS to Produce Financial Reports. SABRS was intended to standardize the report preparation process with minimal amount of manual processing. The production of automated monthly financial reports using U.S. Government Standard General Ledger account balances was under development during FY 2000, therefore, DFAS Kansas City accounting personnel used a manual process to produce monthly reports. Preparing financial reports using the automated general ledger process would allow DFAS Kansas City to identify variances and help correct deficiencies in the automatic production of financial reports using SABRS general ledger account balances. The SABRS Program Office had developed the DD 1002 report and was in the process of establishing the SF 133, the DD 725, and the FMS 2108 reports in SABRS using general ledger accounts. The SABRS Program Office needs to expedite automation of the remaining financial report. The automated reporting

capabilities of SABRS will improve the reliability of the financial reports. The time-consuming, manual processes should be phased out as the automated financial reporting capabilities are implemented.

Preparation of Financial Reports

DFAS Kansas City relied on complex, manual processes to prepare monthly and year-end financial reports using financial data from a variety of sources. The sources included, but were not limited to, data from the Centralized Expenditures and Reimbursements Processing System (CERPS), data obtained by querying SABRS, and hard copy documentation obtained from Marine Corps organizations. The general ledger account balances from SABRS were not used to enter financial data directly into any of the financial reports.

Sources of Financial Data. The manual processing of financial data included entering the data received into at least 12 separate spreadsheets and referencing those spreadsheets to a baseline-input spreadsheet. DFAS Kansas City produced the monthly and year-end financial reports from the baseline-input spreadsheet and the supporting referenced spreadsheets. Preparing financial reports using multiple spreadsheets, prepared manually from multiple data sources instead of using available general ledger account data, circumvented the objective of using transaction-based, general ledger driven systems to produce financial statements, and made reports more prone to errors.

Financial Data Processed From CERPS. DFAS Cleveland sent CERPS data to DFAS Kansas City on a computer compact disk and DFAS Kansas City personnel manually entered that data into the spreadsheets used to prepare monthly financial reports. The CERPS data was also available in SABRS. However, the DFAS Cleveland data and the SABRS data did not always agree. For example, as of September 2000, DFAS Cleveland reported \$155 million more in CERPS for Appropriation 1106 (Operation and Maintenance, Marine Corps) than SABRS. The DFAS Kansas City Financial Reporting Branch used the DFAS Cleveland-provided CERPS data because that data was the expenditure data DFAS Cleveland would use to prepare the official Marine Corps monthly reports. The Financial Reporting Branch did not analyze or reconcile differences between the two sources of CERPS. Therefore, the financial data used to prepare the September 2000 financial reports were not supported by the accounting system. We did not review other months in FY 2000 to determine whether additional differences existed.

The May 2000 CERPS data for Appropriation 1108 (Reserve Personnel, Marine Corps) from DFAS Cleveland and the CERPS data in SABRS had no differences. However, even though there were no differences, DFAS Kansas City used the CERPS data provided by DFAS Cleveland instead of data from the SABRS general ledger account balances, which contained CERPS data. DFAS Kansas City should rely on the data in SABRS and reconcile any differences between sources of data when preparing monthly financial reports. We did not review other months in FY 2000 to determine whether differences existed.

Financial Data Processed From SABRS. DFAS Kansas City, Financial Reporting Branch, relied on queries from SABRS to provide obligation data rather than using general ledger account balances in SABRS to prepare the financial reports. As a result, DFAS Kansas City missed taking advantage of the controls inherent in the SABRS general ledger and achieving efficiencies offered by SABRS. In addition, the continued reliance on manual processes did not further the objective of moving toward the ultimate goal of transaction-based, standard general ledger driven systems to produce financial reports and statements.

Financial Data Processed From Hard Copy Documentation. Marine Corps organizations provided hard copy documentation to DFAS Kansas City to include U.S. Treasury warrants, apportionment schedules, funding authority documents, and other memoranda impacting financial data. DFAS Kansas City manually entered information into spreadsheets from the hard copy documents rather than using funding data available in the general ledger Marine Corps organizations had already entered. Manual processing of Marine Corps data caused a disconnect between the Marine Corps effort to enter accurate and complete data into SABRS and the DFAS Kansas City effort to prepare financial reports and statements.

Manually Preparing the SF 133. DFAS Kansas City used nonstandard processes to prepare the SF 133 for each of the 11 Marine Corps appropriations and the 4 Marine Corps shared appropriations with the Navy. For example, the processes used to prepare the SF 133s for Appropriations 1106 and 1108 were different. Different sources of information were used to populate the spreadsheets for each appropriation. In addition, different processes were used to populate the final input spreadsheets used in producing the SF 133 reports. Such differences may have resulted in unreliable financial data on the SF 133 reports. Inconsistencies in processes used to produce the SF 133 reports for the appropriations could have been avoided by using the SABRS general ledger account balances, which should provide accounting controls and consistency.

Preparing SF 133s for Appropriation 1106. Accounting personnel used seven separate spreadsheets to prepare the SF 133 spreadsheet for Appropriation 1106. DFAS Kansas City sent the SF 133 spreadsheet to DFAS Cleveland and Headquarters Marine Corps. The majority of the data on the SF 133 spreadsheet was referenced to the “1106 Input” spreadsheet. A total of six spreadsheets fed financial data into the 1106 Input spreadsheet. Only 59 percent of the data used to populate the 1106 Input spreadsheet included references to the six spreadsheets. The remaining 41 percent of the data represented additional manual input, including manual journal entry adjustments.

Preparing SF 133s for Appropriation 1108. Accounting personnel used two spreadsheets to prepare the SF 133 spreadsheet for Appropriation 1108, which was sent to DFAS Cleveland and Headquarters Marine Corps. Data on the SF 133 spreadsheet was referenced to the “1108 Input” spreadsheet. About 97 percent of the data on the 1108 Input spreadsheet was manually entered from

DFAS Cleveland-provided CERPS data, SABRS queries, and hard copy documentation. The remaining 3 percent of the data was provided from the CERPS spreadsheet prepared by the accountant.

Conclusion

DFAS Kansas City has worked since 1995 to implement an accounting system that would meet the requirements for financial reporting. DFAS has spent about \$21.8 million on modifications, redesign, and enhancements to SABRS but has failed to fully utilize the capabilities of that system. Rather than use the existing capabilities in SABRS, DFAS Kansas City used manual, nonstandard processes that do not provide the accuracy needed to prepare financial reports along with scarce resources that could be used to perform reconciliations, analyses, and other necessary functions. As a result, reports are more susceptible to errors. The Financial Reporting Branch and the SABRS Maintenance Division should work together to expedite the progress of automated financial report preparation and to determine how to more effectively use the other automated capabilities of SABRS. By using the expected capabilities of SABRS, DFAS will be better able to quickly determine whether the enhancements will provide reliable information and reduce the use of time-consuming manual processes, which increase the potential for errors. DFAS plans to spend an additional \$5.5 million through FY 2004 to further enhance SABRS capabilities. With continued funding of SABRS through FY 2004, DFAS Kansas City needs to demonstrate that SABRS can provide full accounting support for the Marine Corps general funds.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service Kansas City, establish procedures and milestones to use the Standard Accounting, Budgeting and Reporting System (SABRS) to prepare monthly and year-end reports for Marine Corps appropriations, and evaluate the effectiveness of the SABRS to process financial data accurately through the U.S. Government Standard General Ledger. Specifically, the Defense Finance and Accounting Service Kansas City should:

- 1. Complete the work necessary for SABRS to automatically produce all financial reports using U.S. Government Standard General Ledger accounts.**

Management Comment. DFAS concurred and stated that continuing efforts are being made to develop report tools in SABRS for production of monthly reports, and that SABRS is U.S. Government Standard General Ledger compliant. DFAS indicated that the recommendation would be fully implemented by April 30, 2001.

2. Use SABRS general ledger account data to prepare all required financial reports.

Management Comment. DFAS concurred and indicated that as each appropriation is balanced in SABRS, the preparation of financial reports will be transitioned from a manual to an automated process by way of the SABRS Management Analysis Retrieval Tools System. DFAS indicated an estimated completion date of September 30, 2002, for implementation of this recommendation.

3. Reconcile any differences between SABRS general ledger account data and other sources of financial information.

Management Comment. DFAS concurred and stated that a team of accountants at DFAS is dedicated to the balancing and reconciliation of SABRS data and related files, and will continue those efforts until SABRS is reconciled and the recording of financial data is consistent with system design. DFAS indicated an estimated completion date of September 30, 2002, for the implementation of the recommendation.

4. Post and maintain any adjustments to financial records in SABRS using journal entries.

Management Comment. DFAS concurred and indicated that a journal voucher module has been added to SABRS that will allow for posting entries into the correct posting period. DFAS also indicated that this recommendation has already been implemented.

5. Report any of SABRS enhancement deficiencies, affecting financial report preparation, to senior Defense Finance and Accounting Service and Marine Corps officials.

Management Comment. DFAS concurred and stated that any deficiencies identified will be reviewed and addressed by the DFAS Kansas City Accounting Systems Division, who will in turn notify senior DFAS and Marine Corps officials. DFAS indicated that this recommendation has already been implemented.

Appendix A. Audit Process

Scope and Methodology

Work Performed. The overall audit objective was to determine the reliability and effectiveness of processes and procedures used to prepare Navy General Fund financial statements. Specifically, for this part of the audit, we focused on the processes and procedures used to prepare monthly financial reports for Marine Corps appropriations. The FY 2000 Department of the Navy General Fund financial statement showed a net cost of operations of \$94.1 billion, which included \$11.3 billion of Marine Corps costs and total outlays of \$87.9 billion, including \$10.8 billion in outlays by the Marine Corps.

We reviewed the existing capabilities of the SABRS accounting system for producing monthly financial reports. However, we did not do a detailed analysis of the SABRS capabilities and account balances because the enhancements, planned to begin in FY 2001, should improve the reporting process. We also observed the manual process that DFAS Kansas City used to prepare the monthly financial reports that support year-end financial statement preparation. We reviewed the procedures used by DFAS Kansas City, Financial Reporting Branch, to prepare monthly and year-end financial reports such as the SF 133, the DD 1002, the DD 725, and the FMS 2108 during FY 2000. The scope of the audit was limited, in that we did not review the management control program as it pertained to the overall objective. The results of our management control review will be provided in a future audit report.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following objectives and goal, subordinate performance goal, and performance measure.

FY 2001 DoD Corporate-Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**

FY 2001 Subordinate Performance Goal 2.5: Improve DoD financial and information management. **(01-DoD-2.5)**

FY 2001 Performance Measure 2.5.2: Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We did not use computer-processed data in accomplishing the objectives of this project.

Audit Type, Period, and Standards. We performed this financial-related audit from June 2000 through January 2001, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD. Further details are available on request.

Prior Coverage

The General Accounting Office; the Inspector General, DoD; and the Naval Audit Service have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. Naval Audit Service reports can be accessed on the Internet at <http://www.hq.navy.mil/navalaudit>.

Appendix B. Report Distribution

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Department of the Navy

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Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Kansas City

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Office of Management and Budget

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Senate Subcommittee on Defense, Committee on Appropriations
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House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Defense Finance and Accounting Service

Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

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DFAS-DAS

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on Preparing Financial Reports for Marine Corps Appropriations
(Project No. D2000FC-0283.002)

Our response to the subject audit is attached. The point of contact is Mr. David Arvin,
(703) 607-2857 or DSN 327-2857.



Robert P. McNamara
Director for Accounting

Attachment:
As stated

cc:
DFAS-DDI
DFAS-AX/KC

DFAS Comments on Audit Report on Preparing Financial Reports for Marine Corps Appropriations (Project No. D2000FC-0283.002)

Responses to Recommendations:

Recommendation 1. Complete the work necessary for SABRS to automatically produce all financial reports using U.S. Standard General Ledger accounts.

Management Comments: Concur. We are continuing efforts to develop report tools to use SABRS general ledger data for producing monthly reports via SABRS Management Analysis Retrieval Tools System (SMARTS) applications. SABRS general ledgers are currently U.S. Standard General Ledger compliant.

Estimated Completion Date: April 30, 2001.

Recommendation 2. Use SABRS general ledger account data to prepare all required financial reports.

Management Comments: Concur. As each Marine Corps appropriation is balanced in the SABRS general ledger, the DFAS Kansas City (DFAS-KC) Departmental Support Branch will transition from manual preparation of reports using various data sources to general ledger account-driven reports using SMARTS.

Estimated Completion Date: September 30, 2002.

Recommendation 3. Reconcile any differences between SABRS general ledger account data and other sources of financial information.

Management Comments: Concur. A team of accountants of the DFAS-KC Departmental Support Branch is fully dedicated to reconciling SABRS general ledger data and related files. This reconciliation effort was implemented to help identify and resolve system problems associated with earlier versions of SABRS. The team's project will continue until reconciliation of SABRS is completed and recording of financial data is consistent with system design.

Estimated Completion Date: September 30, 2002.

Recommendation 4. Post and maintain any adjustments to financial records in SABRS using journal entries.

Management Comments: Concur. Changes to SABRS in October 2000 included implementation of a journal voucher module that allows for posting of adjusting entries into the correct reporting period. Required journal vouchers are posted into the accounting system.

Completion Date: October 31, 2000.

Recommendation 5. Report any of SABRS enhancement deficiencies, affecting financial report preparation, to senior Defense Finance and Accounting Service and Marine Corps officials.

Management Comments: Concur. The DFAS-KC Departmental Support Branch reports any identified SABRS deficiency through a standard problem reporting process for review and action by DFAS-KC Accounting Systems Division. The Accounting Systems Division notifies DFAS-KC, and Headquarters, U.S. Marine Corps, of the deficiency.

Completion Date: March 1, 2001.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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